

**Statement of
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**before the
Subcommittee on Military Installations and Facilities
Committee on Armed Services
U.S. House of Representatives**

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Madam Chairwoman, Congressman Martin, and Members of the Committee, I appreciate the opportunity to testify before you this afternoon on the Congressional Budget Office's (CBO's) analysis of the costs and savings of past military base closures and realignments. I hope that our work on this important subject will help this Committee and the Congress in reviewing the Department of Defense's (DoD's) plans to close and realign military bases.

The Commission on Base Realignment and Closure has estimated that their recommended actions will eventually save \$693.6 million annually in base operating costs. After deducting the one-time costs associated with closing bases, the commission estimates that the net present value of savings will total \$5.6 billion.

To provide perspective on these projected savings, CBO has estimated the costs and savings associated with selected base closings and realignments that occurred during the 1970s. We focused on nine bases for which some historical data were available, and we used the data to estimate both the recurring annual savings and the one-time net costs involved with base closings and realignment.

My testimony also discusses three potential issues raised by our analysis that relate directly to the commission's recommendations. These issues include the effect of base closings and realignments on

the budget deficit, the problem of defining one-time costs and savings, and the method of specifying the payback period.

My testimony does not assess the advantages and disadvantages of the currently proposed package of base closings and realignments. Nor will I assess the commission's cost estimates, though the historical costs in this statement may provide helpful background. CBO is in the process of examining the data that support the commission's cost estimates. Any cost estimate prepared by CBO will include this analysis.

BACKGROUND: BASE CLOSINGS DURING THE 1980s

No major military bases have been closed during the 1980s. This lack of closings has been attributed to a variety of factors, including:

- o legal impediments that both prohibit and delay base closings;
- o lack of financial incentives to the Department of Defense to reduce the number of bases; and
- o expansion of the military force structure in the early 1980s.

Legal Impediments

In recent testimony to the House Armed Services Committee, Secretary of Defense Frank Carlucci cited legislation that either prohibits specific base closings or delays such closings indefinitely as a major obstacle to reducing the number of bases. Secretary Carlucci noted that certain provisions in various Department of Defense authorization and appropriations acts prevented the services from closing specific bases, including Fort Douglas, Utah; Whiting Field, Florida; and Mather Air Force Base, California. He also identified the National Environmental Policy Act (NEPA) as an example of legislation used by opponents of closure to delay it. This act mandates a time-consuming process of environmental and local impact studies, public hearings, and appeals before closings can occur. Efforts to close Loring and Richards-Gebaur Air Force Bases during the 1970s, for instance, foundered when NEPA's provisions were applied.

Lack of Financial Incentives

The lack of financial incentives to DoD has been a major long-term impediment to closing bases. Since 1949, the provisions of the Federal Property and Administrative Services Act (FPASA) have prohibited DoD from benefiting financially from the disposal of defense properties. On the other hand, DoD must assume the near-term costs

of closing or realigning bases. This failure to provide balanced incentives for DoD discourages it from seeking the most efficient base structure.

Expansion of the Military Force Structure

During the early 1980s, the military force structure expanded significantly; for example, the number of active Army divisions increased from 16 to 18 and that of Air Force fighter squadrons from 74 to 79. Since the size of the support structure for bases generally corresponds to the size of the force structure, there was no apparent need to close bases in view of the expanding force structure.

Since 1985, however, the environment for closing military bases has changed significantly. The Base Closure and Realignment Act of 1988 contains provisions that remove some of the legal impediments to closure; these provisions also provide important new financial incentives to DoD to close excess bases and achieve a more efficient base structure. For example, the act allows the closure process to begin before the environmental requirements of NEPA have been met. It also requires that revenues from the sales of facilities be placed in a fund that can be used to offset the costs of closing bases.

The defense budget has declined in real terms in recent years, and there is little prospect for significant growth in the immediate future. Savings and efficiencies, such as can be made by closing and realigning bases, would help alleviate long-term budgetary constraints. In addition, DoD does not currently anticipate further expansion of its force structure. As a result, the need to maintain or expand the base structure is lessened.

BASE CLOSINGS DURING THE 1970s

In contrast to the 1980s, hundreds of defense installations were closed or realigned during the 1970s. Many of these reductions corresponded with the winding down of U.S. involvement in Vietnam. Other reductions promised savings by realigning operational units. Whether any savings were actually realized, however, is not known, since DoD did not subsequently conduct an analysis to assess the costs and savings of these base closures and realignments.

Unfortunately, the data necessary to conduct a comprehensive analysis of costs and savings of past closures and realignments either no longer exist or were unavailable to CBO. Enough data were available, however, to permit us to make a general assessment of the

major costs and benefits associated with closing nine major bases in the 1970s. Data were sufficient for these bases so that we could estimate both recurring annual savings and one-time costs and savings. We were then able to use these two measures to determine the payback period--that is, the length of time needed to recapture the initial outlays.

Recurring Annual Savings

Base closures and realignments usually result in some recurring annual savings. These savings include the salaries of those military and civilian personnel no longer required as a result of closing or realigning a base; they also include reductions in base operations and support (BOS) costs--for lights, heat, administration, and other non-pay costs of maintaining a base. For the nine major base closings in this study, recurring annual savings averaged \$12.7 million annually under the assumptions for a low estimate, \$15.6 for the medium estimate, and \$22.9 for the high estimate (see Table 1).

The upper end of this range is consistent with the average savings of \$23.1 million per base estimated by the Commission on Base Realignment and Closure for the bases it recommended be closed or

TABLE 1. RECURRING ANNUAL SAVINGS
(In millions of 1989 dollars)

Base	Low Estimate	Medium Estimate	High Estimate
Craig AFB	10.3	11.1	18.0
Forbes AFB	15.5	16.7	18.8
Fort MacArthur	7.9	9.4	19.7
Frankford Arsenal	15.3	24.3	51.5
Kincheloe AFB	14.8	18.0	22.2
Richards-Gebauer AFB	16.0	26.1	32.3
Rickenbacker AFB	6.6	6.6	6.9
Webb AFB	11.8	12.3	20.1
Westover AFB	15.6	16.1	16.3
Total	113.9	140.6	205.8
Average per Base	12.7	15.6	22.9

SOURCE: Congressional Budget Office based on Department of Defense data.

NOTE: Savings in the table include those for military and civilian personnel salaries and related base operation and support costs.

realigned.¹ Note, however, that the historical figures represented only major base closures, whereas the commission's recommendations include a mix of larger and smaller bases.

Military Personnel Savings. The services were not able to provide data on the actual reductions in the number of military personnel that resulted from closing the nine bases. CBO, therefore, estimated the

1. *Base Realignments and Closures*, Department of Defense, Report of the Defense Secretary's Commission on Base Realignment and Closure (December 1988).

savings for military personnel salaries on the basis of several assumptions. CBO did have data on the total number of military personnel at each of the bases and on the current fraction of military personnel employed in base operations and support, which was about 11.4 percent. We then assumed that this same fraction of military personnel were involved in base operations and support at these nine bases. We further assumed that all personnel billets involved in base operations and support could be eliminated--that is, that none was needed to expand operations at these bases that absorbed missions from the nine closed facilities. The estimated savings from salaries of military personnel also rest on the assumption that BOS functions at the nine bases required the same average skill levels as BOS functions in today's military. Finally, we estimated the non-pay BOS costs associated with maintaining military personnel at a base by assuming that closing a base would result in savings of \$1,725 for each military person at the base--the average current factor for these non-pay costs.

Civilian Personnel Savings. CBO estimated a range of savings for civilian personnel. The low estimate of savings for civilian personnel was calculated using the same methodology applied to military personnel; that is, civilian costs saved at each base equal the total civilian payroll at the base times the fraction (29.7 percent) of civilians currently involved in base operations. Savings for civilians included in the medium estimate are based on historical data

identifying the proportion of civilians at the nine bases--about 50 percent--who did not find other employment within DoD or the federal government. Finally, savings for civilians in the high estimate were set to equal the total civilian payroll at the base. As with military personnel, the non-pay BOS costs associated with maintaining civilians at a base were estimated to average about \$1,725 per civilian employed at each of the closed bases.

This wide range of assumptions about savings associated with civilian personnel reflects uncertainty about what actually happened to civilians at bases closed in the 1970s. Did most of the civilians leave government service, or did they take jobs that would otherwise have been filled by other people seeking work, as the high savings assume they did? Or did most of them remain on the payroll and move to those bases that absorbed the military missions previously performed on the closed bases, as is more consistent with the low end of the range? Unfortunately, we cannot obtain a clear answer from the available data.

Time Required for Closure. These annual savings were not fully realized until the bases in the 1970s were fully closed. How long did that take? Data on the 33 major bases closed in the 1970s showed that it required an average of 4.2 years from the time the closing of the base was announced until all land was transferred from DoD control.

There were, however, a wide range of delays. Most bases were closed within one or two years, but a few closures, such as Frankford Arsenal and the Truman Annex, required more than 10 years to complete.

One-Time Costs and Savings

Closing and realigning bases may involve significant initial, one-time costs that could affect a decision of whether or not to close a base. For example, if one-time costs are so large that they are not offset by recurring savings for many years, it might be inadvisable on economic grounds to close a base.

Costs. One-time costs include expenditures to relocate personnel and equipment, to provide impact assistance to individuals and communities, and to conduct environmental cleanup. In some cases, the initial costs of closing a base could include construction costs at a receiving base if it becomes necessary to accommodate personnel and equipment being transferred. In the case of the nine bases studied, the services were unable to provide data on the costs of transferring equipment or of additional military construction that may have been required.

Data were available, however, on the costs of relocating personnel and the costs of federal impact assistance. CBO estimated relocation

costs based on current average costs for a permanent change of station (PCS) applied to the estimated number of military and civilians relocated as a result of closure or realignment. For the military, these costs were based on the number of military personnel minus those estimated to be assigned to base operations and support functions. They include an adjustment to compensate for normal PCS rotations that would have occurred if the bases had not been closed. For civilians, PCS costs were based on the actual number of people assigned to other DoD or other federal government positions outside their commuting area at the time of closure or realignment.

Savings. The one-time costs of closure can be partially offset by revenues obtained through the sale of property and assets. In the past, the General Services Administration (GSA) has managed the sale of excess DoD properties--an arrangement that has, in some cases, involved extended periods of time before sales are completed and revenues are received. Under the provisions of the Base Closure and Realignment Act, DoD is now authorized to manage the sale and disposal of its excess properties, and must deposit revenues received into a special account to be used to offset the initial costs of base closings and realignments. Whether or not this new arrangement will affect the extent and timing of the disposal of Department of Defense properties is not clear.

Net Costs. CBO calculated net initial costs of closings or realignment as the difference between one-time revenues from the sale of property and assets, and one-time costs of federal impact assistance and relocation costs for military and civilian personnel (see Table 2). For the nine bases studied, the total revenue from sales approximately equaled the total amount of federal impact assistance. As a result, net initial costs were largely those of relocating personnel.

TABLE 2. ONE-TIME COSTS AND SAVINGS FROM NINE
BASE CLOSINGS (In millions of 1989 dollars)

Base	Savings	Costs		
	Sales of Property and Assets	Federal Impact Assistance	Relocating Personnel	Net Costs
Craig AFB	6.8	12.1	5.4	10.7
Forbes AFB	15.3	9.1	7.4	1.2
Fort MacArthur	5.1	0.9	4.6	0.4
Frankford Arsenal	3.7	27.8	10.0	34.1
Kincheloe AFB	6.9	19.9	7.4	20.4
Richards-Gebauer AFB	13.4	1.1	8.7	-3.6
Rickenbacker AFB	9.9	0.2	3.0	-6.7
Webb AFB	6.4	7.1	6.1	6.8
Westover AFB	14.8	4.7	7.2	-2.9
Total	82.3	82.9	59.8	60.4
Average per Base	9.1	9.2	6.6	6.7

SOURCE: Congressional Budget Office based on Department of Defense and General Services Administration data.

These initial, one-time net costs for the nine bases averaged about \$6.7 million. (This figure should be considered a low estimate, since no costs of relocating equipment or additional construction are included.) They are comparable to the average one-time net costs for bases that the commission has recommended for closure or realignment. These costs amount to about \$7 million. According to the commission, this figure includes "consideration of" the costs of construction, retiring personnel and severance pay, relocating personnel and equipment, and purchases and sales of property. The commission did not include the costs of hazardous waste cleanup or of federal impact assistance, since it considered these costs to be minimal.

It is interesting to note that revenues from the sales of property at the closed bases were only a fraction of the total value of the bases. At the 33 bases for which data were available, revenues from sales accounted for 35 percent of the total value of property sold or transferred. Apparently, many bases were given away or sold at a fraction of their value--perhaps to assist local communities whose economies were affected by closing the bases.

Finally, the speed with which one-time costs were incurred, and one-time savings were realized, varied widely. For example, more than 70 percent of federal impact assistance was provided within two years of the time the closing of the base began, while less than 1

percent of revenues from sales were received during that same time period.

The Payback Period

The commission allows a six-year time frame for recapturing the initial net costs of closing or realigning a base. Specifically, the commission's charter directs its members to recommend bases for closure or realignment when "total cost savings . . . will, by the end of the six-year period beginning with the date of the completion of the closure or realignment of the base, exceed the amount expended to close or realign the base."² This payback period can be estimated by using the one-time net cost figures in Table 2 and the recurring savings figures in Table 1. Table 3 shows the estimated payback periods for the nine bases according to the various assumptions concerning recurring savings. Even assuming the lowest estimate of recurring annual savings, one-time costs were paid back within an average of less than two years, well within the six-year limit specified in the commission's charter. Thus, history seems consistent with the commission's calculations, which show that 42 bases recommended for closing or realignment meet the six-year payback criteria.

2. Secretary of Defense, letter of May 3, 1988, "Commission on Base Realignment and Closure."

TABLE 3. THE NUMBER OF YEARS TO RECOVER
ONE-TIME COSTS ON NINE BASES

Base	Assume Low Savings	Assume Medium Savings	Assume High Savings
Craig AFB	2	1	1
Forbes AFB	1	1	1
Fort MacArthur	1	1	1
Frankford Arsenal	3	2	1
Kincheloe AFB	2	2	1
Richards-Gebauer AFB	1	1	1
Rickenbacker AFB	1	1	1
Webb AFB	1	1	1
Westover AFB	1	1	1

SOURCE: Congressional Budget Office.

ISSUES RAISED BY THE HISTORICAL COSTS

In reviewing the commission's recommendations, the Congress should consider a number of issues raised by this research on the costs of past base closings and realignments.

How Will Savings Affect the Deficit?

Most savings from base closings and realignments stem from reduced personnel costs. But personnel reductions will reduce the federal budget deficit only to the extent that personnel at affected bases are

eliminated from the federal work force or take jobs that would otherwise have been filled with new employees. If, for example, the jobs at one base are transferred to another base, then no deficit reduction would occur. While this point is obvious, the historical data suggest that it is difficult to ascertain exactly how many personnel at closed facilities leave the work force or take jobs that would otherwise have been filled by new employees. Thus, the Congress should examine the extent to which the commission's estimated savings will actually reduce the deficit.

Although closing bases reduces requirements for overall military and civilian end strength, DoD may want to augment personnel authorizations in unrelated areas, or undertake entirely new mission activities, using the authorizations freed up by base closings. If so, the savings realized as a result of these closings could be largely offset or at least obscured. Thus, any such decision to increase personnel beyond what is now required to satisfy existing missions should be viewed as a separate decision to increase end strength, with accompanying increases in cost.

Defining One-Time Costs and Savings

In calculating its estimates of one-time costs and savings, the commission elected not to consider several elements of costs. The costs

of environmental cleanup, for example, are not included because the commission assumes that DoD will eventually have to bear the costs whether or not the base is closed. On the other hand, at current levels of funding, it will be many years before all DoD bases are cleaned up. If cleanup efforts are accelerated as a result of closing bases, some people might consider these costs to be a result of the decision to close a base.

In addition, the commission does not address the costs of federal impact assistance, assuming that they would be negligible. Data for the nine bases analyzed in this report indicate that such costs are relatively minor, but in general they approximated revenues from sales. If the commission projects revenues from sales as part of savings to be gained, then it might be appropriate to project potential impact assistance. Including impact assistance could also significantly affect the timing of costs and savings, since historically federal impact assistance was required before revenues were received from sales.

Defining the Payback Period

The commission's charter--but not that of the legislation establishing the commission--states that the payback should be within six years of the "date of the completion of the closure or realignment of the base."

It did not, however, define the "date of completion" more precisely. In the nine-base study, the completion of a base closing was defined as the date on which land was transferred from federal control. The numbers in this analysis, and the estimates for proposed closings made by the commission, suggest that payback will usually be achieved within just a few years. Nonetheless, the payback period could become an issue if one-time costs rise (for example, because some costs of environmental cleanup are included) or if one-time savings decline (perhaps because revenue from property sales is lower than expected). Therefore, the Congress may wish to establish a more precise definition of the "date of completion."

CONCLUSION

In summary, CBO's analysis of costs and savings reached three major conclusions:

- o Recurring average savings ranged from a low of \$12 million to a high of \$23 million (in 1989 dollars), depending on the assumptions used. This range can be compared with the Commission's estimate of \$23 million in average annual savings.
- o One-time net costs (not including the costs of military construction, which were unavailable) averaged \$6.7 million for the nine bases. This average is comparable with the Commission's estimate of about \$7 million (including

military construction) for the average one-time costs of closing or realigning 145 bases. The historical average would be higher if military construction costs were available.

- o The average time needed to recapture the one-time costs was less than two years, well within the Commission's recommended six-year time frame.

Our analysis also suggests a need to define clearly the date when a base closure is completed if we are to be sure that the payback of one-time costs occurs within six years of that date. When estimating one-time costs, the Congress may also wish to consider including some costs omitted by the commission, such as those for federal impact assistance.

Finally, CBO's analysis of base closures in the 1970s highlighted a lack of information. For example, we could not determine how many civilian or military positions were actually eliminated because of base closures. Nor could we ascertain the added costs of military construction associated with relocating a base. Yet, factors such as these determine whether closing bases actually saves money and reduces the federal deficit. If this package of base closings and realignments is approved, the Congress may wish to mandate a closer monitoring of costs and savings associated with the package.